

Message Text

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ORIGIN EB-06

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SUBJECT: IDB CONCESSIONAL LENDING TO MEXICO

1. THE FOLLOWING IS PROVIDED FOR YOUR BACKGROUND, SHOULD THE GOVERNMENT OF MEXICO RAISE WITH YOU OUR RESERVATIONS REGARDING THE PROPOSED \$45 MILLION FSO LOAN TO MEXICO FOR RURAL IRRIGATION (3RD STAGE), OF WHICH \$28 MILLION PROPOSED IN DOLLARS AND THE BALANCE IN LOCAL CURRENCIES.

2. THE INTER-AMERICAN BANK (IDB) HAS A POLICY OF PHASING DOWN ITS CONCESSIONAL LENDING TO THE CATEGORY A (MOST DEVELOPED) COUNTRIES IN LATIN AMERICA -- VENEZUELA, MEXICO, ARGENTINA, AND BRAZIL. IN CONNECTION WITH THIS POLICY, THE U.S. RAISED WITH IDB PRESIDENT ORTIZ MENA IN SEPTEMBER ITS

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CONCERN REGARDING THE LARGE NUMBER OF POSSIBLE CONCESSIONAL

LOAN APPLICATIONS FROM THE BIG FOUR FOR THE REMAINDER OF 1974. IN THE COURSE OF THESE CONVERSATIONS U.S. REPRESENTATIVES SUGGESTED THAT A LEVEL OF \$60 MILLION IN DOLLAR LENDING FROM THE FUND FOR SPECIAL OPERATIONS TO THE BIG FOUR WOULD REFLECT THE IDB PROGRAM FIGURES TO GIVE EFFECT TO PHASE DOWN PROGRAM. (FSO DOLLAR LENDING TO THE BIG FOUR IN CY 1973 WAS \$90.1 MILLION.) ORTIZ MENA ACCEPTED THE \$60 MILLION TARGET AND UNDERTOOK TO SEE WHETHER APPLICATIONS COULD BE SCALED DOWN TO THIS LEVEL. A RECENT CONVERSATION HAS INDICATED THAT IDB, AFTER DEVELOPING AN APPROPRIATE SHARING OF THE \$60 MILLION CEILING, APPROACHED THE GOVERNMENTS OF BRAZIL AND ARGENTINA AND WE UNDERSTAND SECURED THEIR AGREEMENT TO LIMIT FSO DOLLAR LOAN APPLICATIONS TO THEIR SHARE OF THE \$60 MILLION CEILING. (VENEZUELA HAS ANNOUNCED THAT IT WILL SEEK NO ADDITIONAL FSO LOANS.) ORTIZ MENA HAS, HOWEVER, FOR HIS OWN REASONS APPARENTLY NOT APPROACHED GOVERNMENT OF MEXICO AND SAYS HE HAS NO INTENTION OF DOING SO.

3. MEXICO IN THE MEANTIME IS PRESSING ITS APPLICATION FOR AN IDB RURAL IRRIGATION LOAN INCLUDING \$28 MILLION IN DOLLARS FROM THE FUND FOR SPECIAL OPERATIONS. WE HAVE NO

BASIS FOR OBJECTING TO THE PROJECT AND WOULD PROBABLY SUPPORT ITS FINANCING UNDER IDB ORDINARY CAPITAL, PERHAPS WITH A PORTION OF MEXICAN PESO FINANCING FROM THE FUND FOR SPECIAL OPERATIONS. WE BELIEVE, HOWEVER, THAT THE SUBSTANTIAL FSO DOLLAR LOAN REQUESTED IS INCONSISTENT WITH THE OBJECTIVE OF PHASING DOWN MEXICAN AND BIG FOUR ACCESS TO CONCESSIONAL DOLLAR FINANCING FROM THE IDB. THE MEXICAN APPLICATION, IF APPROVED, WOULD BRING TOTAL FSO DOLLAR LENDING TO MEXICO IN 1974 TO \$36 MILLION, COMPARED TO \$21.4 MILLION LAST YEAR, AND TOTAL FSO DOLLAR LENDING TO THE BIG THREE (EXCLUDING VENEZUELA) TO \$82.3 MILLION IN 1974 COMPARED TO \$55.5 MILLION LAST YEAR.

4. WE CONSIDER THIS TO BE AN ISSUE BETWEEN THE IDB AND GOVERNMENT OF MEXICO, NOT BETWEEN THE U.S. AND MEXICO. OUR POSITION IS BASED ON IMPLEMENTATION OF A POLICY ACCEPTED BY THE BANK MEMBERSHIP AND THE CEILING FOR 1974 LIMITED OFFICIAL USE

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THAT THE BANK MANAGEMENT ITSELF HAD ACCEPTED AS REASONABLE. OUR SUPPORT, HOWEVER, FOR ANY FSO PORTION OF THE LOAN WOULD BE NECESSARY BECAUSE OF THE REQUIREMENT THAT FSO LOANS BE APPROVED BY AT LEAST TWO-THIRDS VOTE OF THE BOARD (THE U.S. REPRESENTS 40 PERCENT OF THE VOTING POWER). INGERSOLL

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